



STATE OF NEW JERSEY
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102
www.bpu.state.nj.us

IN THE MATTER OF THE VERIFIED
PETITION OF DIECA COMMUNICATIONS,
INC. D/B/A COVAD COMMUNICATIONS FOR
AUTHORITY TO PROVIDE ITS SECURITY IN
CONNECTION WITH NEW FINANCING)

TELECOMMUNICATIONS

ORDER

DOCKET NO. TF06030243

(SERVICE LIST ATTACHED)

BY THE BOARD¹

On March 23, 2006, DIECA Communications, Inc. d/b/a Covad Communications ("Covad" or the "Petitioner") filed a petition with the New Jersey Board of Public Utilities ("Board") requesting approval pursuant to N.J.S.A. 48:3-7 and N.J.S.A. 48:3-9 to participate in certain debt and debt-related financings. Under those arrangements, Covad will provide its guarantee, serve as a co-borrower, or otherwise provide security in connection with various financings of up to \$200 million being arranged for its parent company, Covad Communications Group, Inc. ("Covad Group").

Covad is a Virginia corporation that is a wholly-owned subsidiary of Covad Group, a Delaware corporation and a publicly-held company. The principal business office of Covad Group and Covad is located in San Jose, CA. Covad is a nationwide provider of integrated voice and data communications offering DSL, VOIP, web hosting, managed security, IP and dial-up, and bundled voice and data services directly through its network and through Internet service providers, value-added resellers, telecommunications carriers, and affinity groups to small- and medium-sized businesses and home users. To provide its services, Covad owns and operates a nationwide broadband network that serves customers in 44 states. In New Jersey, Covad is authorized to provide intrastate telecommunications services. Covad currently offers services through 104 central offices in New Jersey. As of May 4, 2006, Covad had 22,692 broadband customers in New Jersey. Covad is also authorized by the Federal Communications Commission to provide both interstate and international telecommunications services.

Covad proposes that Covad Group and/or Covad obtain up to \$200 million through one or more financing arrangements with banks, other financial institutions and/or other types of investors ("Financings"). Current proposed Financings include a \$50 million revolving line of credit from a commercial bank ("Commercial Bank") and a \$50 million investment from Earthlink in return for \$10 million of Covad Group common stock (6,134,969 shares) and a \$40 million senior secured convertible note. Earthlink is not acquiring any shares of stock in DIECA (the operating

¹ Commissioner Christine V. Bator abstained from voting on this matter.

company). Based on Covad Group's 292,624,210 shares outstanding on April 30, 2006, this represents approximately 2% of Covad Group's outstanding shares.

The interest rate on the commercial loan is a floating rate equal to the Prime Rate plus 0.25% or LIBOR plus 3.0%, at the Company's election. Each draw-down can be converted between the prime-based and the LIBOR-based formulas. The interest rate on the Earthlink \$40 million convertible note is 12%. The Earthlink convertible note is due March 15, 2011, and the revolving line of credit has a maturity date of April 13, 2008. Covad and Covad Group may obtain other Financings in the future up to \$200 million.

The Financings will be secured by a first ranking security interest in specified assets of Covad, including a security interest in its receivables, tangible personally property, equipment, and intellectual property. At present, it is expected that the Commercial Bank line of credit will be secured by Covad's assets. The Earthlink senior secured convertible notes will be secured with a security interest in the telecommunications equipment (and any intellectual property embedded in that equipment) that Covad will purchase with the proceeds from the note.

The financings will allow the company to purchase equipment for and deploy its new line-powered voice services, as well as other next generation broadband services to be developed in the future. None of the proceeds from the Earthlink financing will be used to repay existing loans.

Covad states that approval of the proposed financing arrangements will serve the public interest by enhancing the ability of Covad to grow and compete in the highly competitive markets for telecommunications services in New Jersey and nationwide. Furthermore, Covad states that approval of the financing transaction described herein is not expected directly to affect in any way the rates or services of Covad or its affiliates, or result in any change in control of Covad or its affiliates. Covad states that the financing transaction would have little effect on customers in New Jersey or elsewhere.

The Division of the Ratepayer Advocate has reviewed this matter and, by letter dated May 26, 2006, recommends the Board approve this petition.

The Staff's review indicates that the financing arrangement is in accordance with law and while there is no guarantee, given the competitive environment in which Petitioner operates, the Board is satisfied that the transactions will not have an adverse impact on the Petitioner's operations in New Jersey.

After review, the Board FINDS that the proposed transaction is consistent with the applicable law. The Board HEREBY AUTHORIZES Petitioner to participate in the financing arrangements described herein.

This Order is subject to the following provisions:

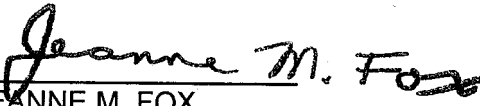
1. Petitioner shall notify the Board, within five business days, of any material changes in the Financings, and shall provide complete details of such transactions including any anticipated effects upon service in New Jersey.
2. Petitioner shall notify the Board of any material default on the terms of the Financings within five business days of such occurrence.
3. Notwithstanding anything to the contrary in the documents executed pursuant to the financing transactions or other supporting documents, a default or assignment under

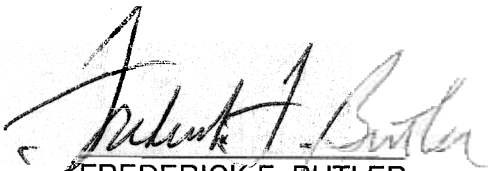
such agreement does not constitute an automatic transfer of Petitioner's assets. Board approval must be sought pursuant to N.J.S.A. 48:1-1 et seq. where applicable.

4. This Board's approval is expressly limited to the financing described herein and as more fully described in the Petition and supporting documents.
5. This Order shall not be construed as directly or indirectly fixing, for any purpose whatsoever, any value of the tangible or intangible assets now owned or hereafter to be owned by Covad.
6. This Order shall not affect nor in any way limit the exercise of the authority of this Board, or of the State of New Jersey, in any future petition or in any proceedings with respect to rates, franchises, services, financing (including the method of sale of securities), accounting, capitalization, depreciation or in any other matters affecting Covad.

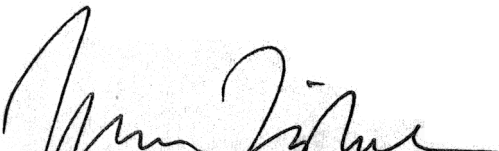
DATED: 6/22/04

BOARD OF PUBLIC UTILITIES
BY:

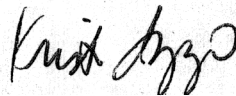

JEANNE M. FOX
PRESIDENT


FREDERICK F. BUTLER
COMMISSIONER

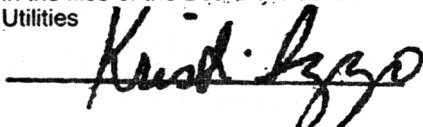

CONNIE O. HUGHES
COMMISSIONER


JOSEPH L. FIORDALISO
COMMISSIONER

ATTEST:


KRISTI IZZO
SECRETARY

I HEREBY CERTIFY that the within
document is a true copy of the original
in the files of the Board of Public
Utilities



SERVICE LIST

**In the Matter of the Verified Petition of DIECA Communications, Inc. d/b/a Covad
Communications for Authority to Provide its Security in Connection with New Financing**

Docket No. TF06030243

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